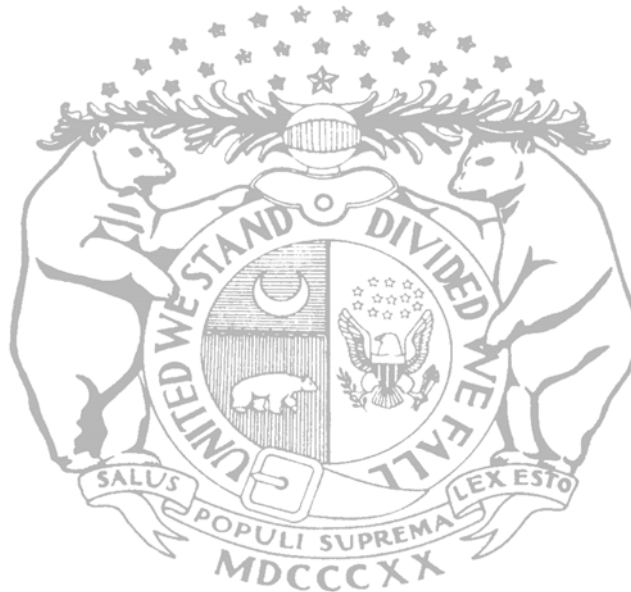


REPORT OF
FINANCIAL EXAMINATION

MISSOURI PROPERTY INSURANCE PLACEMENT FACILITY

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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February 10, 2005
St. Louis, MO

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Mr. Finke:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of the

Missouri Property Insurance Placement Facility

also referred to as the “Fair Plan” or as the “Facility.” The examination was conducted at the Company’s home office at 906 Olive Street, St. Louis, Missouri 63101, telephone number (314) 421-0170. This examination began on December 20, 2004, and concluded February 10, 2005.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of the Missouri Property Insurance Placement Facility was performed as of December 31, 2000.

The current full scope financial examination covers the period from January 1, 2001, through December 31, 2003. This examination also included material transactions and/or events occurring after December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Facility's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination as of December 31, 2000. The responses or actions taken by the Facility are also described below.

Comment: Cash and Short-term Investments

“It is recommended that the Facility reduce the target balance of its sweep account to \$100,000 or below to ensure that the Facility’s funds are protected by the Federal Deposit Insurance Corporation (FDIC) limit of \$100,000 per account.”

Facility Response:

“At the Board of Governors regular meeting of September 13, 2001 the Board adopted the recommendation that the target balance of our sweep account be changed to \$100,000 as recommended.”

Current Findings:

The Facility has reduced its target balance for the sweep account to \$100,000.

Comment: Cash and Short-term Investments

“The Facility’s investment guidelines limit the Facility to investments in U.S. Treasury bills or notes only. It is recommended that the Facility change its sweep account investment procedures to invest in overnight purchases of U.S. Treasury bills or notes or amend the guidelines to allow the current arrangement.”

Company Response:

“At this same meeting of the Board of Governors (i.e., September 13, 2001) new investment guidelines were adopted to allow the investment under the current arrangement.”

Current Findings:

The Facility has amended its investment policy to allow investments in repurchase agreements involving U.S. Treasury securities or U.S. government agency securities.

HISTORY

General

The Facility was created in response to the Federal Urban Property Protection Act of 1968. Beginning in May 1969, the FAIR (Fair Access to Insurance Requirements) Plan was formed and operated on a voluntary basis. Approximately 250 companies participated in the voluntary plan.

On October 13, 1969, the Missouri Property Insurance Placement Facility was legislated into existence by House Bill #772 of the 75th general assembly. The legislation made it mandatory for all Missouri insurers who write habitational and commercial coverage on a direct basis to participate in the risk of insuring the Facility’s policies.

On April 13, 1986, the statutes governing the Facility were amended to include farm properties and the limit of commercial insurance was increased to \$1,000,000.

On July 20, 1987, the Facility revised its “Plan of Operation” to include an improved indemnification agreement, legislated expansion into farm business and increased the limits of liability.

On July 6, 1988, the Facility made available “New Crime Business” coverage with the approval of the Missouri Department of Insurance.

On April 12, 1991, The Facility revised its Plan of Operation to waive assessments or distributions of amounts of \$100 or less.

Management

Section 379.860 RSMo (Governing committee) states that the Facility shall be administered by a governing committee consisting of thirteen members, subject to supervision of the Director of the Missouri Department of Insurance. The statute requires that the committee consist of members from each of the organizations/categories listed below:

2 Members	American Insurance Association (AIA)
2 Members	Alliance of American Insurers (AAI)
2 Members	National Association of Independent Insurers (NAII)
2 Members	Stock Insurers
2 Members	Non-Stock Insurers
2 Members	Licensed Agent of Insurers
1 Member	Missouri Insurer

Individuals representing each category are selected by the respective organization. Committee members are elected annually. Members serving at December 31, 2003, were as follows:

<u>Company</u>	<u>Affiliation</u>
Hartford Insurance Company	American Insurance Association
Firemans Fund Insurance Company	American Insurance Association
Liberty Mutual Insurance Company	Alliance of American Insurers
Employers Mutual Companies	Alliance of American Insurers
American Family Mutual Insurance Company	National Association of Independent Insurers
Auto Club Family Insurance Company	National Association of Independent Insurers
State Farm Insurance Company	All Other Non-Stock Insurers
Lititz Mutual Insurance Company	All Other Non-Stock Insurers
Allied Property & Casualty Insurance Company	All Other Stock Insurers
Cincinnati Insurance Company	All Other Stock Insurers
Shelter Insurance Companies	Missouri Insurers
J.W. Terrill Agency	Licensed Agents

At year-end 2003, there was a vacancy on the Governing Committee for a licensed agents' representative. The Director of the Missouri Department of Insurance appointed a licensed agents' representative in 2004.

Section 379.870 RSMo (Duties of governing committee) requires the governing committee to appoint a manager to budget expenses, levy assessments, disburse funds and perform other duties as necessary. The Facility Plan of Operation also calls for the offices of controller and claims manager to facilitate the daily operations of the Facility. Officers serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
David Reuter	Manager
William Kloecker	Controller
Ronald Allen	Claims Manager

Section 379.870 RSMo (Duties of governing committee) calls for the establishment of an underwriting committee to review risks submitted for insurance and any other committees deemed necessary. Listed below are committees existing at December 31, 2003.

Claims Committee

American Family	Chair
State Farm	Member
Auto Club	Member
Liberty Mutual	Member

Underwriting Committee

Shelter	Chair
State Farm	Member
Employers Mutual	Member

Legislative Committee

Shelter	Chair
Fireman's Fund	Member

Executive Committee

Cincinnati	Chair
Employers Mutual	Member
Shelter	Member

Conflict of Interest

The Facility has a policy requiring the manager and all other officers to complete conflict of interest disclosure statements annually. The conflict of interest statements were reviewed for each year during the examination period. No material conflicts were indicated on any of the statements.

Corporate Records

The Facility operates under the “Missouri Basic Property Insurance Inspection and Placement Program” established in 1969 in accordance with Sections 379.810 to 379.880 RSMo.

Section 379.835 RSMo (Joint reinsurance association) calls for the adoption of the Plan of Operation, which is similar to the bylaws of a corporation. Any amendments to the Plan of Operation must be filed with the Director of the Department of Insurance. No amendments were made to the Plan of Operation during the current examination period.

Meeting minutes of the members, governing committee, claims committee and underwriting committee were reviewed and appear to reflect proper approval of transactions and events during the examination period. The governing committee acknowledged its receipt and review of the Report of Financial Examination made as of December 31, 2000 on September 13, 2001.

AFFILIATED COMPANIES

The Facility does not have any affiliates and thus is not subject to Chapter 382 RSMo (Insurance Holding Companies).

FIDELITY BOND AND OTHER INSURANCE

The Facility maintains the following types of insurance coverages for its property and employees:

<u>Coverage Type</u>		<u>Limit</u>
Fidelity Bond	\$ 500,000	Annual Aggregate
Workers Compensation		Statutory Limits
Employers Liability-Accident	\$ 500,000	Per Accident
Employers Liability-Disease	\$ 500,000	Per Employee
Business-Personal Property	\$ 123,022	Aggregate
Earthquake	\$ 1,000,000	Aggregate
Business Liability	\$ 1,000,000	Aggregate
Business-Medical Payments	\$ 5,000	Per Person
Fire Legal Liability	\$ 50,000	Aggregate

The Facility's fidelity coverage of \$500,000 complies with the minimum amount of insurance suggested by National Association of Insurance Commissioners guidelines for a company of this size.

EMPLOYEE BENEFITS

At year-end 2003, the Missouri Property Insurance Placement Facility had 13 employees. The employees receive a comprehensive benefit package that includes the following: an employer funded defined benefit pension plan, a defined contribution 401(k) plan, group life and health insurance, employer funded long term disability insurance, tuition reimbursement, vacation, holidays and a salary continuation plan.

Salary and benefit expenses are reviewed and approved annually by the governing committee as part of the budget approval process.

STATUTORY DEPOSITS

The Facility is not required to establish a statutory deposit with the state of Missouri or any other states.

TERRITORY AND PLAN OF OPERATIONS

General

The purpose of the Facility is to provide fair access to insurance to those having an insurable interest in property, who are in good faith entitled to such insurance, but who are unable to obtain it in the normal market. The Facility provides basic property insurance coverage on habitational and commercial risks within the state of Missouri. Pursuant to Section 379.825 RSMo (Risk assignment) the maximum limits issued by the Facility are \$100,000 for habitational policies and \$1,000,000 for commercial policies. The Facility charges policyholders Insurance Service Office premium rates approved by the Missouri Department of Insurance. Losses or profits of the Facility are passed on to the “Joint Reinsurance Association” who assumes 100% of the Facility’s liabilities as prescribed by Section 379.835 RSMo (Joint reinsurance association).

The Facility has no certificate of authority nor does it have a license from any state. The Facility is a syndicate representing all fire insurance companies licensed to write business in the state of Missouri and all policies are issued through the Missouri Property Insurance Placement Facility.

Policy Forms & Underwriting; Advertising and Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of issues regarding the treatment of policyholders and generates a separate market conduct examination report. The most recent market conduct examination report covered the period of October 1, 1996 through September 30, 1997.

REINSURANCE

Assumed

None

Ceded

As prescribed by Section 379.810 RSMo (Program established), the Facility is responsible for the equitable distribution of risks among all Missouri licensed insurers. This is accomplished by the creation of the “Joint Reinsurance Association” formed under Section 379.835 RSMo (Joint reinsurance association). The “Joint Reinsurance Association” consists of all Missouri licensed insurers. The Facility cedes one hundred percent of business written to the “Joint Reinsurance Association.” Assessments or distributions are made as necessary to cover losses of the Facility or profits. Assessments/distributions are made to participating insurers based on each insurer’s proportion of premiums written as it bears to the aggregate of all premiums written in the state of Missouri.

Assessments and distributions for the period under examination were as follows:

<u>Year</u>	<u>Habitational</u> <u>Assessments</u>	<u>Commercial</u> <u>Distributions</u>	<u>Net</u>
2001	\$ 465,474	\$ (85,869)	\$ 379,605
2002	969,074	(89,276)	879,798
2003	<u>892,831</u>	<u>(98,705)</u>	<u>794,125</u>
Total	<u>\$ 2,327,379</u>	<u>\$ (273,850)</u>	<u>\$ 2,053,529</u>

ACCOUNTS AND RECORDS

General

The Facility prepares its Annual Statement as if it retained all business written. In November 1973, the Missouri Department of Insurance prescribed that the financial statements be prepared “to show the operation of the Facility as a whole, which does not reflect the cession of business to the participating companies.” The Facility has followed the prescribed practice on all subsequent Annual Statement filings.

Independent Auditor

The Facility’s statutory financial statements are audited annually by the public accounting firm Conner Ash P.C. Workpapers of the December 31, 2003, audit were reviewed and utilized during the course of this examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Facility as of December 31, 2003, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

ASSETS

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
A-5: Cash	\$ 1,239,552	\$ -	\$ 1,239,552
A-11: Investment Income Due/Accrued	802	-	802
A-12.1: Uncollected Premiums	57,873	-	57,873
A-12.2: Deferred Premiums	201,523	-	201,523
A-17: EDP Equipment	<u>91</u>	<u>-</u>	<u>91</u>
Total Assets	<u>\$ 1,499,841</u>	<u>\$ -</u>	<u>\$ 1,499,841</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

L-1: Losses	\$ 365,586	
L-3: LAE	54,874	
L-4: Commissions Payable	75,481	Note 1
L-5: Other Expenses	19,841	Note 1
L-6: Taxes, Licenses and Fees	10,496	
L-9: Unearned Premium	1,666,607	
L-10: Advance Premium	123,265	Note 2
L-14: Amounts Withheld for Others	92,084	Note 2
L-2301: Accumulated Post Retirement Benefits	324,913	
L-2302: Accrued Pension Benefits	<u>652,191</u>	Note 3
Total Liabilities	\$ 3,385,338	
S-33: Unassigned Funds (Surplus)	<u>(1,885,497)</u>	Note 3
Total Liabilities and Surplus	<u>\$ 1,499,841</u>	

STATEMENT OF INCOME

Premiums earned	\$ 3,190,231
Losses incurred	(2,137,236)
Loss expense	(556,527)
Other underwriting expense	<u>(1,350,109)</u>
Net underwriting loss	(853,641)
Investment income	8,520
Other income	<u>235</u>
Net loss	<u>\$ (844,886)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus, December 31, 2002	\$ (2,001,872)
Net loss	(844,886)
Change in non-admitted assets	130,728
Net assessment	794,125
Change in pension plan	(41,139)
Examination changes	<u>77,546</u>
Surplus, December 31, 2003	<u><u>\$ (1,885,498)</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1 Commissions Payable \$75,481

\$75,481 was reclassified from Other Expenses Payable to Commissions Payable, reducing Other Expenses Payable from \$95,322 to \$19,841.

Note 2 Advance Premium \$123,265

\$123,265 was reclassified from Amounts Withheld for Others to Advance Premium, reducing Amounts Withheld for Others from \$215,349 to \$92,084.

Note 3 Accrued Pension Benefits \$652,191

The Facility's reported accrued pension liability of \$729,737 was overstated by \$77,546. Surplus was increased to reflect the adjustment of the pension liability.

EXAMINATION CHANGES

Total Surplus per Facility

Unassigned Funds

Assets

Liabilities

Accrued Pension Benefits

Net Change in Surplus

Total Surplus per Examination

Unassigned Funds

				\$ (1,963,043)
	Notes	Increase	Decrease	
	3	\$ 77,546		
		\$ 77,546	\$ -	
			-4.0%	\$ 77,546
				\$ (1,885,497)

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None

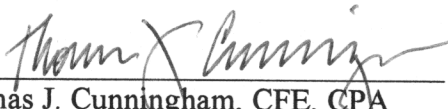
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and employees of the Facility during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

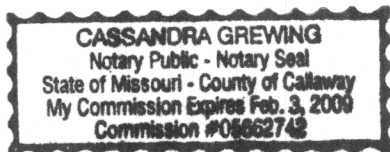
State of Missouri)
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County of Cole)

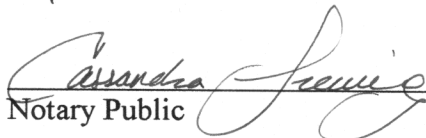
I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Thomas J. Cunningham, CFE, CPA
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 8 day of April, 2005.
My commission expires:

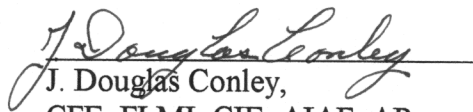
Feb. 3, 2009




Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


J. Douglas Conley,
CFE, FLMI, CIE, AIAF, ARe
Audit Manager
Missouri Department of Insurance